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TO:	FROM:
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COMPANY: U.S. Patent Office	DATE: 7/12/2007
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RE:	SENDER'S FAX NUMBER:

Phone Conference on 07/17/07

Appn. Number: 10/757,933
Appn. Filed: 01/15/2004
Applicants: Bruce Bradford Thomas
Title: Model Options
GAU: 3628
Examiner: Samica L. Norman

☐ URGENT ☐ FOR REVIEW ☐ PLEASE COMMENT ☐ PLEASE REPLY ☐ PLEASE RECYCLE

In preparation for our phone conference July 17th at 2:30 PM, I thought it would be worthwhile to send you a brief fax outlining the nature of the conversation I hope to have with you. As I mentioned on the phone yesterday, I have had the opportunity to consider the 06/20/07 Office Action.

I want to amend my specification and claims to better demonstrate that my invention represents patentable subject matter and to cure some of the technical problems that you note. However, I thought it would make sense to have a discussion with you before I file an

amendment. I have a couple of basic questions that I was hoping you could answer for me, but I also wanted to briefly discuss the invention with you and make certain that you understand how it is different from the prior art.

Basic Questions

1. It was unclear to me whether the amended drawing was accepted or rejected since neither box was checked.

2. Given that I made a preliminary amendment before and now will make a few more changes to the specification, I thought it might make sense to file a clean version of the specification, too. Do I need to submit the most current version of the drawing, abstract, and claims, too? My understanding is that the claim numbers should coincide with the ones shown in my amendment rather than starting from 1. Is this correct?

3. My understanding is that I will need to respond in writing within 3 months of the mail date (06/20/07). Is that correct?

Invention's Novelty

My invention is a business method that would be used to construct option contracts. The novelty of this method is that it embeds a methodology that uses an option pricing model into the contract and that this methodology will be used to determine the value of the contract.

Traditionally option contracts have been constructed by specifying only the basic option terms such as the underlying asset, the strike price, the expiration date, the ability to exercise, etc. Under this new method, I am adding the element of a valuation methodology that includes an option pricing model (Fig. 1 depicts these elements). For this reason, option contracts that are

constructed in the traditional way do not contractually obligate the parties to value the contract in any particular fashion.

Prior Art Cited is Nonanalogous

Although the prior art cited uses many of the same words that I use in my specification, the intent is quite different.

Brundobler and Pandher teach how to construct option valuation models and machinery. They do not teach how to construct option contracts, that an option valuation methodology should be included in option contracts, or that there are substantial benefits to be gained from doing this.

Bowen et al. teach a method for creating an exchange-traded fund which is a type of derivative contract, but they do not teach anything about option contracts.

Benefits of the Claimed Invention

Makes Option Valuation Objective

Currently option valuation is a subjective process. The value of an option is whatever the market says it is. If there is no market for an option, the most value one can get is its intrinsic value, and they must go through a number of transactional steps to get this value

The claimed invention makes option valuation objective by specifying a formula that will be used to determine the options value. This enables one to get both the intrinsic value and time value of an option. As described in the Specification, many benefits are derived from this method.

Enables and Enhances Option Trading

The claimed invention enables trading of options in circumstances where there is either no options market to set prices or one would not feel comfortable relying on the options market to set prices due to thin trading.

Reduces Transaction Costs

The invention reduces transaction costs by eliminating the transactional steps that one must go through to transform an option into cash. For example, a traditional call option on a company's stock permits the holder to settle the contract prior to expiration by paying the strike price and requesting delivery of the underlying asset.

In this example, the option holder may have to sell some other asset that she owns to generate the funds to pay for the strike price, incurring transaction costs. She must incur additional transaction cost to sell the assets received pursuant to the option contract, and potentially more transaction costs as she seeks to regain her position in the asset that she previously liquidated (to generate the funds necessary to settle the option contract). In the case of an option trading on an exchange, the option holder may sell her position rather than force delivery of the underlying asset, but she must pay a transaction fee for this privilege.

Using the claimed invention, the holder could simply demand a cash settlement, alleviating the hassle and expense of these additional steps. Eliminating this additional cost, would be beneficial to both parties to an option contract.

Because the claimed invention enables options to be traded without needing the price discovery function of a recognized options exchange, it has the potential to reduce the transaction cost of options in another way as well. Qualified parties (institutions that do not need the credit enhancement function of a recognized exchange) may agree to exchange Model Options with each other without paying any transaction fees.

Reduces The Potential For Price Manipulation

The claimed invention reduces the possibility of market manipulation or manipulation of the values used for ones books and records.

Makes Option Price Risk More Manageable

The claimed invention improves one's ability to manage the risk of option price volatility by being able to decouple the various attributes of option value. It is impossible to decouple the component values of traditional options with any precision.

Unobviousness

The claimed invention solves a different problem than the references cited and is contrarian in that it goes against the prior art. The prior art does not recognize that there is any problem with how option contracts are constructed.

The two independent paths that the prior art has shown for improving option performance are improved trading platforms and improved valuation models. The claimed invention improves option performance without improving the trading platform and improves option valuation without creating a better option valuation model.

Given how large and important the options market is, the most reliable test of obviousness is whether the options market has embraced this method of option construction. Since the benefits of this method are (in hindsight) obvious, substantial, and multifaceted, and given that practitioners in the field have not yet adopted this method of constructing options, one must conclude that this method is unobvious.